NOAA CWIP Policy
Appendix E: OMAO Ship Acquisition, Upgrades and Modifications

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1. **Purpose of Document**. The purpose of this document is to provide specific Construction Work-In-Progress (CWIP) policy that applies to Office of Marine and Aviation Operations (OMAO) Ship Acquisition, Upgrades and Modifications. This document supplements, rather than supersedes, the NOAA CWIP Policy.

2. **Ship Acquisition** NOAA acquires its ships by new construction and transfer from other Federal agencies with customization for NOAA requirements. Ship construction and customization involves a continuum of activities from preconstruction design and requirements to mission ready availability. The process involves multiple sea trials and industrial periods to test and address ship and system functionality, safety, ship standards, crew performance and readiness, execution of NOAA's projects on a trial basis, and contract and warrantee compliance.

3. **Policy**

3.1 Vessels as PP&E and CWIP. OMAO purchases, constructs, upgrades, and modifies ships to serve as platforms for scientific data gathering. According property policy, these vessels qualify as personal property. When the vessels involve construction and the cost is more than $200,000, the vessels need to be evaluated to determine if they meet the four CWIP criteria defined in the NOAA CWIP Policy.

3.2 Costs. All costs incurred after the concept development/feasibility stage that are required to bring a vessel to the required form and location of its intended use are considered part of the vessel's cost. This includes design costs and all other costs stated in the NOAA CWIP Policy. NOAA vessels are large, complex structures composed of many pieces of equipment. The intended use of these vessels is scientific data gathering. Therefore for those vessels with a stated scientific mission, the cost of the vessel will include costs incurred to bring the vessel to the form of its scientific mission. The cost of NOAA vessels that do not have a primary scientific mission but have a more generic intended use, such as generic small boats that serve multiple uses, will include costs incurred to bring the vessel to the form of its more generic intended use.

3.3 Timing

3.3.1 *Initial Capitalization.* When the vessel is placed in service all CWIP costs related to the asset up to that point in time are moved from the CWIP account to the Property, Plant and Equipment (PP&E) account and depreciated over the useful life of the vessel. The placed in service date is the same as the date the vessel is commissioned.

3.3.2 *Subsequent Capitalizations.* In accordance with the NOAA CWIP Policy, costs incurred after the vessel is placed in service which are required to complete the work needed to bring the vessel to the form and location of its intended use are captured in the CWIP account, periodically moved to the PP&E account, and depreciated over the remaining useful life of the vessel.

3.4 Integral Versus Non Integral PP&E (See Figure 1 for examples of the accounting treatments.)

3.4.1 *Integral*. The determination of integral versus non-integral affects the cost of the vessel. Please refer to the decision tree diagram, Figure 1, in the NOAA CWIP Policy, Section 5.4, to determine if PP&E is integral to a CWIP asset.

3.4.2 *Materiality Relative to Useful Life*. In reference to the second box in the decision tree diagram, the useful life of PP&E could be considered materially different from the vessel if its useful life is **less than** 2/3 of the useful life of the vessel. OMAO will consult with the NOAA Finance Office for a final determination of the materiality

relative to useful life of the PP&E.

3.4.3 *Materiality Relative to Cost*. In reference to the third box in the decision tree diagram, the cost of PP&E could be considered material if the value of the PP&E is **greater than** 5% of the total CWIP cost of the vessel or $1 million, whichever is greater. OMAO will consult with the NOAA Finance Office for a final determination of the materiality relative to cost of the PP&E.

3.4.4 *Non-Integral Items*. Initial outfitting list (IOL) and spare parts are non-integral. These items will be treated according to their own nature. Any individual item on the IOL or spare parts list that meets the accountable property or capitalized property definition will be treated as a standalone asset. Equipment and other items that do not support the vessel's intended use or are not integral based on the decision tree diagram will be treated according to their own nature. The cost of non-integral property or equipment is not included in the cost of the vessel.

3.5 Maintenance and Repair Versus Enhancement (See Figure 2 for example.)

3.5.1 *Maintenance and Repair*. If an integral component of the vessel originally purchased with that vessel is replaced by a component that provides the vessel with similar functionality and does not extend the useful life of the vessel, the cost associated with that replacement will be treated as a maintenance and repair expense.

3.5.2 *Enhancement*. If an integral component of a vessel originally purchased with that vessel is replaced by an integral component that enhances the functionality of the vessel, that cost will be added to the value of the original PP&E and reflected in adjusted depreciation for the remainder useful life of the PP&E. If the upgrade of the original component extends the useful life of the PP&E, the value of the improvement shall be added to the PP&E's remaining Net Book Value and depreciated over the new useful life of the PP&E.

4 **Cost Matrix.** The following matrix identifies costs and the applicable accounting treatments (capitalize or expense). CWIP project codes are used to capture the cost of constructed capitalized items; non-CWIP project codes are used for the expensed items.

	Type of Cost	*Treatment*
1	Planning activities not resulting in final design	Expense
2	Personal property equipment constructed for prototypes or experimental research and development	Expense
3	Ordinary administrative supplies	Expense
4	Amounts paid to vendors [1]	Capitalize
5	Transportation charges to point of initial use [1]	Capitalize
6	Handling and storage costs [1]	Capitalize
7	Labor and other direct or incidental production costs [1]	Capitalize

	Type of Cost	*Treatment*
8	Engineering, architectural, and other outside services for designs, plans, specifications, and surveys [1]	Capitalize
9	Fixed equipment and related installation costs [1]	Capitalize
10	Direct costs of inspection, supervision, and administration of construction contracts and construction work [1]	Capitalize
11	Legal and recording fees and damage claims [1]	Capitalize
12	Fair value of facilities and equipment donated to the government [1]	Capitalize
13	Material amounts of interest costs paid [1]	Capitalize
14	Electronic systems built into a vessel which meet the definition of "integral"	Capitalize as part of vessel
15	Replacement of "integral" electronic system originally built into a vessel which maintains the functionality of the vessel	Expense as maintenance and repair cost
16	Replacement of "integral" electronic system originally built into a vessel which enhances the functionality of the vessel or which extends vessel useful life	Value of replacement added to value of vessel
17	Initial outfitting list [2]	Expense or capitalize separately from the vessel (see footnote)
18	Spare parts [2]	Expense or capitalize separately from the vessel
19	Property or equipment which is integral to the PP&E [3]	Capitalize as part of the vessel
20	Property or equipment not an integral part of the PP&E [4]	Expense or capitalize separately from the vessel (see footnote)

Notes:

[1] Costs incurred between preplanning, pre-design and acceptance that are required to bring the PP&E to a form and location of its intended use. Concept studies will be expensed until a determination is made as to whether or not the study leads to further development within the project. Studies that become part of the project will be capitalized. Software developed by the project that is integral to the PP&E and is not considered to be "stand alone software" is included in the PP&E.

[2] Individual items will be treated based on their own nature. Any individual item that meets the accountable property or capitalized property definition will be treated as a standalone asset. An item that qualifies as accountable, not capitalized, property would be expensed. An item that qualifies as capitalized property would be capitalized based on its useful life.
[3] Examples of items that may qualify as integral are sonar systems and their associated parts, VSAT systems and their associated parts.
[4] An item that qualifies as accountable, not capitalized, property would be expensed. An item that qualifies as capitalized property would be capitalized based on its useful life.

Figures

Figure 1

OMAO CONSTRUCTED VESSEL

Total Cost:	$30,000,000
Placed in Service Date:	10/1/2013
Useful Life in Years:	30

CWIP	
<u>Vessel</u>	
Cost	$26,250,000
Placed in Service Date:	10/1/2013
Useful Life in Years	30
Accounting Treatment:	Capitalized & depreciated over 30 yr. useful life

"NON INTEGRAL" EQUIPMENT	
<u>Launch</u>	
Cost	$1,750,000
Placed in Service Date:	10/1/2013
Useful Life in Years	15
Accounting Treatment:	To be discussed with Finance Office for potential capitalization separate from CWIP asset.

INITIAL OUTFITTING LIST & SPARE PARTS (No single item cost over $200,000)	
Cost	$2,000,000
Placed in Service Date:	NA
Useful Life in Years	NA
Accounting Treatment:	Expensed

Figure 2

TREATMENT OF MAINTENANCE AND REPAIR VERSUS ENHANCEMENT OF INTEGRAL COMPONENT

	Cost	Orig. Useful Life	Salvage Value		
Vessel	$50,000,000	30	0		
Integral Component Replacement in year 11	$800,000				
Expense each year:	Years 1-10	Year 11	Years 12-30	Years 31-35	Total
Example 1: Replacing integral component, maintaining similar function of vessel with same useful life					
Vessel depreciation expense	$1,666,667	$1,666,667	$1,666,667		$50,000,000
Maintenance & repair expense		$800,000			$800,000
Total Cost	*$1,666,667*	*$2,466,667*	*$1,666,667*	*$0*	*$50,800,000*
Example 2: Replacing integral component, enhancing function of vessel with same useful life.					
Vessel depreciation expense	$1,666,667	$1,706,667	$1,706,667		$50,800,000
Maintenance & repair expense		$0			$0
Total Cost	*$1,666,667*	*$1,706,667*	*$1,706,667*	*$0*	*$50,800,000*
Example 3: Replacing integral component, enhancing function of vessel and extending useful life by 5 years.					
Vessel depreciation expense	$1,666,667	$1,365,333	$1,365,333	$1,365,333	$50,800,000
Maintenance & repair expense		$0			$0
Total Cost	*$1,666,667*	*$1,365,333*	*$1,365,333*	*$1,365,333*	*$50,800,000*